

Before the
United States Department of Agriculture
Rural Utilities Service

Statement of
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In the Matter of
Challenges of Broadband Deployment in Rural America

June 27, 2002

GOOD MORNING, MY NAME IS MICHAEL
BRUNNER, I AM CHIEF EXECUTIVE OFFICER OF
THE NATIONAL TELECOMMUNICATIONS
COOPERATIVE ASSOCIATION. ON BEHALF OF
THE NTCA AND ITS 551 SMALL, RURAL, LOCAL
EXCHANGE CARRIER MEMBERS, I AM
GRATEFUL FOR THE OPPORTUNITY TO
PRESENT TESTIMONY REGARDING THE
CHALLENGES OF DEPLOYING BROADBAND
SERVICES TO RURAL AMERICA. AS WE MEET
TODAY TO DISCUSS THESE ISSUES, I WOULD
LIKE TO FIRST PROVIDE SOME BACKGROUND
ON NTCA AND THE LEVEL OF BROADBAND

DEPLOYMENT OUR MEMBERS HAVE ALREADY
ACHIEVED.

NTCA MEMBERS PROVIDE LOCAL EXCHANGE
SERVICE TO AS FEW AS 44 SUBSCRIBERS AND
TO AS MANY AS 86,500. YET GENERALLY, THEY
SERVE BETWEEN 1,000 AND 5,000 ACCESS
LINES. THEIR COMBINED SERVICE
TERRITORIES COVER CLOSE TO 40% OF THE
GEOGRAPHIC UNITED STATES AND THEIR
POPULATION DENSITY IS 1 TO 5 CUSTOMERS
PER SQUARE MILE. WE BELIEVE THAT WHEN
THE QUESTION OF "WHO IS SERVING RURAL

AMERICA?", IS ASKED, THE ANSWER IS "NTCA MEMBERS."

THE DEBATE OVER THE AVAILABILITY OF ADVANCED TELECOMMUNICATIONS SERVICES HAS GROWN DRAMATICALLY OVER THE COURSE OF THE PAST COUPLE OF YEARS. DURING THIS PERIOD, NTCA HAS REGULARLY LOOKED TO ITS MEMBERS AND TO THE INDUSTRY IN GENERAL TO SEE IF THE ADVANCED SERVICES OBJECTIVES OF THE TELECOMMUNICATIONS ACT OF 1996 ARE BEING MET.

WHILE THE ANSWER IS VAUGUE WITH REGARD TO THE RURAL AREAS OF THE NATION'S LARGEST CARRIERS, IT IS AN UNEQUIVOCAL YES IN RELATIONSHIP TO NTCA'S MEMBERS. INDEED, WE HAVE CONDUCTED AN ANNUAL SURVEY OF OUR MEMBERS THE PAST TWO OR THREE YEARS TO SPECIFICALLY ANALYZE THE STATE OF THEIR BROADBAND AND INTERNET DEPLOYMENT. OUR SURVEY PROVIDED AN IN-DEPTH LOOK WHERE OUR MEMBERS WERE, AND MORE IMPORTANTLY, WHERE THEY NEED TO BE HEADED IN THE AREA OF BROADBAND SERVICE AND PENETRATION.

WHEN ASKED ABOUT CURRENT SERVICE, 74% OF SURVEY RESPONDENTS ARE ALREADY OFFERING BANDWIDTH IN EXCESS OF 200 KBPS (KILO BITS PER SECOND) TO SOME PORTION OF THEIR CUSTOMER BASE. 67% CURRENTLY OFFER BANDWIDTH BETWEEN 201 AND 500 KBPS, 59% CURRENTLY OFFER BETWEEN 501 KBPS AND 1 MBPS (MEGABITS PER SECOND), AND 46% CURRENTLY OFFER BANDWIDTH IN EXCESS OF 1MBPS. OUR SURVEY ALSO SHOWED THAT BY YEAR'S END, 83% EXPECTED TO BE PROVIDING A 200 KPBS OPTION, 73% TO PROVIDE 201 TO 500 KPBS, 65% TO PROVIDE 501 TO 1MBPS, AND OVER

HALF OF THE RESPONDENTS EXPECT TO BE OFFERING IN EXCESS OF 1MBPS. WE BELIEVE THIS SAYS A GREAT DEAL ABOUT THE COMMITMENT OUR MEMBERS HAVE TO THEIR LOCAL COMMUNITIES.

DESPITE THE FACT THAT PROVIDING SERVICE TO RURAL CUSTOMERS POSES NUMEROUS CHALLENGES, DRAMATIC PROGRESS IS BEING MADE. YET, NTCA BELIEVES THAT THESE NUMBERS CAN IMPROVE SIGNIFICANTLY WITH THE APPROPRIATE FINANCING TOOLS. WE BELIEVE CONGRESS' RECENT AUTHORIZATION OF THE BROADBAND PILOT PROGRAM WILL

INCREASE THE INVESTMENT OF BROADBAND
DEPLOYMENT ACROSS RURAL AMERICA.

OUR SURVEY ALSO DEALT WITH THE ISSUE OF
COMPETITION AND BARRIERS TO
DEPLOYMENT. OBVIOUSLY, WHEN DEALING
WITH RURAL AREAS THE COSTS WILL BE
HIGHER DUE TO LOW CUSTOMER DENSITY
RATES. SEVERAL NTCA MEMBERS REPORT
DENSITY RATES OF LESS THAN 1 PER SQUARE
MILE, WITH ONE MEMBER STATING IN OUR
SURVEY THAT IT WAS IMPRACTICAL TO
DEPLOY BROADBAND FOR 80 CUSTOMERS
SPREAD OVER 850 SQUARE MILES.

THE NATIONAL EXCHANGE CARRIER
ASSOCIATION (NECA) IN THEIR RURAL
BROADBAND COST STUDY HAS ESTIMATED
THE COST OF REACHING THE "FINAL MILE"
ACROSS RURAL AMERICA TO BE \$10.9 BILLION
DOLLARS. OF THIS AMOUNT \$5.6 BILLION IS
ATTRIBUTED TO THOSE IN "ISOLATED
TERRITORIES". NECA DEFINES THIS AS AN
AREA WHERE FACTORS SUCH AS DISTANCE,
SPARSE POULATION, OR DIFFICULT TERRAIN
MAKE IT UNECONOMICAL TO UPGRADE LOOPS.
ISOLATED TERRIRTORIES COMBINED WITH
THE TREMENDOUS COSTS ASSOCIATED WITH

BROADBAND IS A MAJOR OBSTACLE FACING
OUR MEMBERS TODAY.

ALONG THIS LINE, OUR SURVEY IDENTIFIED
FOUR MAJOR OBSTACLES TO OFFERING
BROADBAND: 67% OF THE RESPONDENTS
MENTIONED LONG LOOPS, 63% MENTIONED
THE COST OF DEPLOYMENT, 51% STATED LOW
DEMAND, WHILE 43% STATED THE LACK OF
COST EFFECTIVE EQUIPMENT SCALED FOR
SMALLER COMPANIES.

THE ISSUE OF COMPETITION WAS ALSO PART
OF THE NTCA SURVEY, AS WELL AS THE TOPIC

OF AN NTCA WHITE PAPER BY DR. DALE
LEHMAN OF FORT LEWIS COLLEGE. DR.
LEHMAN'S STUDY FINDS THAT THE 1996'S
DUAL OBJECTIVE OF MAINTAINING THE
SUFFICIENCY OF THE UNIVERSAL SERVICE
PROGRAM AND OF PROMOTING COMPETITION
ARE AT TIMES IN CONFLICT. IN RURAL AREAS,
WHERE HIGH COSTS ARE PRESENT,
COMPETITION MAY RESULT IN HIGHER RATES
AND FEWER SERVICES BEING AVAILABLE.
WHILE RUS POLICIES PREVENT LOANS BEING
ISSUED THAT WOULD IN EFFECT RESULT IN
COMPETITION BETWEEN ITS BORROWERS,
FCC POLICIES SEEM TO OFTEN INCITE SUCH

UNECONOMIC ACTIVITY. A CASE IN POINT IS HOW THE UNIVERSAL SERVICE RULES HAVE ALLOWED COMPETITORS TO "GAME THE SYSTEM" AND GAIN ACCESS TO UNIVERSAL SERVICE FUNDS THAT ARE BASED ON THE INCUMBENT'S COSTS. NTCA MEMBERS DEPEND ON UNIVERSAL SERVICE FUNDS AS PART OF THEIR REVENUE STREAM AND WHILE WE ARE SUPPORTIVE OF COMPETITION, IT SHOULD NOT COME AT THE COST OF UNDERMINING THE VERY PROGRAMS, SUCH AS THOSE UNDER THE RUS, THAT ARE DESIGNED TO ENSURE ALL AMERICANS ARE ABLE TO CONNECT TO AND BE PART OF, THE

NATIONWIDE UBIQUITOUS
TELECOMMUNICATIONS NETWORK THAT IS SO
CRITICAL TO OUR NATIONAL AND ECONOMIC
SECURITY.

AS THE NECA STUDY SHOWS, GOING AFTER
THE "LAST MILE" WILL TAKE A TREMENDOUS
INVESTMENT. INDEED, WE WOULD NOT BE
WHERE WE ARE TODAY WITHOUT THE RUS
PROGRAM AND ITS 50 YEAR RECORD OF
SUCCESS. THE AGENCY'S NEW BROADBAND
PROGRAM WILL CLEARLY PROVIDE OUR
MEMBERS WITH ANOTHER TOOL TO DO WHAT
THEY DO BEST – TO PROVIDE RURAL

COMMUNITIES WITH ADVANCED
TELECOMMUNICATIONS SERVICES.

NTCA IS CONFIDENT THE AUTHORIZATION OF
THE BROADBAND PILOT PROGRAM WILL
PROVIDE FURTHER ACCESS TO CAPITAL
ALLOWING OUR MEMBERS TO GO AFTER THAT
LAST MILE.

THE RUS PROGRAM'S RECORD OF PROVIDING
BASIC TELEPHONE SERVICE, AND NOW
BROADBAND, HAS OCCURRED DUE TO THE
EFFORTS OF THE ENTREPRENEURIAL RURAL
TELCOS ACROSS THE COUNTRY, NOT

GOVERNMENT NETWORKS. WE BELIEVE THIS
RECORD SHOULD CONTINUE AND WE LOOK
FORWARD TO WORKING WITH RUS.